FUTURE *of* OUTSOURCING

Is your outsourcing relationship green from the outside and red from the inside?

The Watermelon Effect

"The state of sub-optimal relationships existing between customer and their outsourcing partners. Green & smooth from outside but red & fragile from Inside"

Move from Red to Green
Move from Discontentment to Delight

If your Outsourcing experience is based on

Pyramid model | Lack of attention
Lack of Innovation | Lack of automation
Excessive rotation

Talk to Hexaware where Outsourcing model is based on

Anti-Pyramid-model | Cross Skilled Experts
Deep domain expertise | Bottom-Up Innovation
Executive Attention

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It's time to sell what outsourcers can do

Despite challenges, notably from in-company automation, outsourcers have the opportunity to up their game and expand

◆ **OVERVIEW**

● **CHARLES ORTON-JONES**

There is a common compliant in the outsourcing industry. Providers create brilliant services which beat in-house provision on every count. But potential clients are reluctant to sign up. Outsourcing is still a hard sell.

So what's the best way to win over doubters? First up, it's worth sketching out the scale of the challenge.

A recent survey by Illuma Research for software consultancy MooD International shows what IT directors really think about outsourcing. The priority? Almost half said outsourcers should aim to deliver revenue generation and growth. By contrast, only one in five cited cost reduction as the most critical area.

Clearly, they understand outsourcing is about a step-change in performance, not merely saving a few pennies. Outsourcers need to acknowledge that. Making life simple is crucial as 57 per cent of IT directors said their job is more complex to manage and 46 per cent that their job satisfaction has declined.

Add into this the figure that 58 per cent said it's become more difficult for outsourcers to deliver on budget and 76 per cent that outsourcers aren't aligned with their business goals, and the message is clear: business pitches need to spell out how they can make life easier for IT directors in a clear and unambiguous way.

Alas, so often this opportunity is missed. Vivek Madan, a partner at consultancy OC&C, has worked with many companies assessing potential partners. He observes: "On innovation, outsourcing firms come can come across as underwhelming when they pitch to a new client. This is primarily because outsourcers don't always excel at articulating value added."

He claims the mindset is often wrong. "They'll settle for a bid being incrementally better than the next and simply do what the client has asked of them rather than thinking outside of the cost box to deliver outcomes a client might not have thought about, such as employee engagement, consumer advocacy, knock-on efficiencies, risk management or corporate social responsibility."

Big claims will need strong evidence to win over sceptical boards. Contact centre Ventrica has won business from McDonald's, Worldpay and Agent Provocateur by using case studies to spell out how it can deliver gains.

Ventrica founder and managing director Dino Forte says: "The best way of convincing clients who are unfamiliar with outsourcing is through case studies that demonstrate how similar companies

> ## "
> I dislike the term outsourcing and never use it with clients or within the industry – instead we use the term technology partnership

in their sector have realised significant commercial benefits. This allows them to identify and envisage how this can work for them too." Vague claims get you nowhere, he warns.

Supply chain outsourcer Flex says the case study approach is just the start. Mike Meades, Flex general manager, says: "I think one of the best ways to convince C-suite bosses to move towards outsourcing is to provide both case study evidence and also a tailored solution to the specific needs of a business.

"Companies want to see a proven track record from an outsource provider that not only delivers financial and operational improvements, but also shows the ability to manage risk to allay very typical concerns within an organisation that is outsourcing, particularly for the first time." Facts and figures, supported by a detailed exposition of how it was achieved before, make a good case.

Exit clauses are a great way to win over worriers. The old days when companies signed decades-long deals with no chance of leaving are long gone. Nicholas Mobbs, co-founder of Outbox, a European IT outsourcer, says an exit clause must be backed up with a guarantee the process will be done smoothly.

"The outsourcing partner needs to transfer all the data back to the contractor or to the new outsourcing partner, plus provide adequate expertise for it to succeed without them," he says. "This contract clause avoids concerns about vendor lock-in, where a company feels trapped by contract with one outsourcing vendor."

It should be emphasised that outsourcing isn't a sales job, vendor to buyer. It's a partnership. Brian Borack, chief operating officer of IT provider SoftServe, says: "I dislike the term outsourcing and never use it with clients or within the industry – instead we use the term technology partnership. Clients are choosing a partner they want to bet on with a skillset they cannot find elsewhere."

Above all, the mission when pitching is to arrive at a common understanding. Mike Whitchurch, senior vice president at CGI, the world's fifth-largest outsourcer, says: "Outsourcing projects need to be fully aligned to the business vision of the organisation. This means the IT outsourcing provider needs to demonstrate they understand the business and can add value to it in a way that supports the overall business objectives."

Recent National Outsourcing Association figures show 78 per cent of companies and consultancies expect to expand their usage of outsourcing towards 2020. Only a fraction of 1 per cent will reduce it. Conditions have never been better. Service providers simply need to up their game – and get pitching.

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◆ **ECONOMY**

● **SIMON BROOKE**

The outsourcing industry is an increasingly important driver of the UK economy. According to the Business Services Association (BSA), almost 10 per cent of the UK's workforce is employed in outsourcing, accounting for 3.3 million jobs or one in ten workers. In the third quarter of 2015, £2.2 billion of outsourcing contracts were signed, an increase of 69 per cent on the previous year.

The BSA recently published research, conducted by Oxford Economics, which shows an increase in outsourcing of 1 per cent adds £2 billion in productivity gains to the UK economy each year. For every percentage point that outsourcing grew between 1995 and 2013, GDP growth increased 0.37 per cent per year faster than it would have otherwise and productivity has increased faster by 0.12 per cent.

"The notion that businesses or governments should try to do everything themselves is as misguided as it is old fashioned. Bringing in experts simply makes sense," it concludes.

As a global comparison, the UK is behind only the United States in terms of the strength of its outsourcing sector, according to Mark Fox, the BSA's chief executive.

Dr Anthony Mitchell of the Hult International Business School, who has researched the subject, says of its development over the years: "The UK companies with their 'liberal market economy' approach were quick to outsource, favoured short-term cost-savings, but were also more flexible and agile. Radical changes were successfully negotiated with trade unions and suppliers to seemingly favour shareholders, and management were less constrained by institutional factors and capitalist constraints."

Despite this buoyancy, business process outsourcing (BPO) is often associated in the minds of the public with offshore call centres and a desire by companies to drive down costs at the expense of customer service. It's an image that the BSA's Mr Fox is keen to dispel.

"Outsourcing is a big part of the economy and it's not just about Indian call centres – it's about companies running more efficiently and focusing on their core skills," he says. "It's a dynamic industry that's not properly understood. It's not just about cutting costs; it's about better quality of service."

Outsourcing companies themselves are also fighting back. Property Webmasters, for instance, which is based in Hartlepool, designs and builds websites for estate agents across the world and is keen to see the government's idea of a Northern Powerhouse develop. Unable to find talent locally, they outsourced to a British IT outsourcing company based in the Philippines called Cloud Employee.

"The public's perception of outsourcing and the reality of what we do are two very different things," says Cloud Employee's co-founder Nick Hargreaves. "We're supporting the growth of UK companies by providing them with dedicated staffing resources that would otherwise be unavailable to them. This enables them to grow the
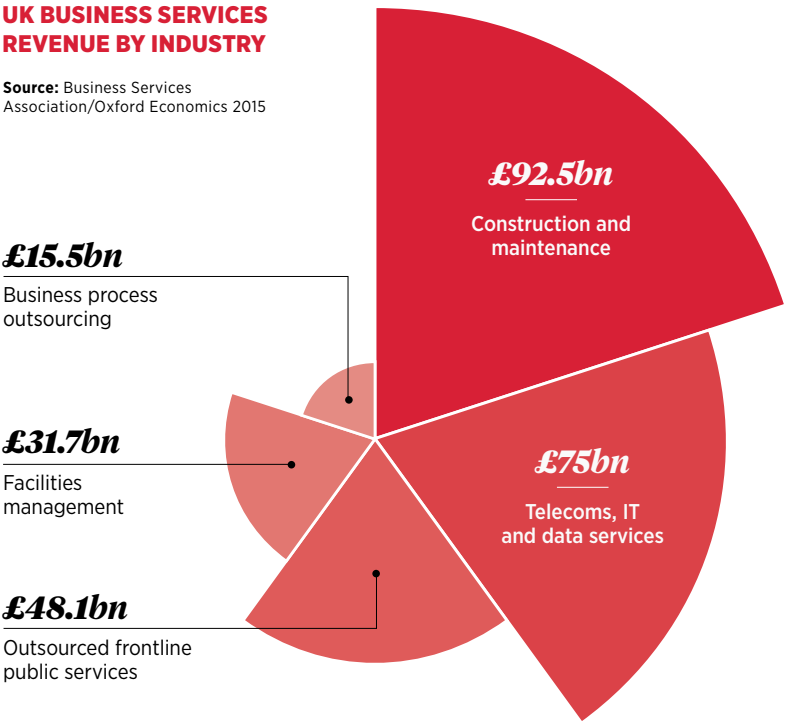

Offices of IT and business process outsourcing firm Atos, one of the largest outsourcing companies in the UK

Rise of outsourcing boosts UK economy

It may be sometimes maligned, but outsourcing can bring major benefits to the UK economy in terms of jobs, growth and increased productivity

UK BUSINESS SERVICES REVENUE BY INDUSTRY

Source: Business Services Association/Oxford Economics 2015

£92.5bn
Construction and maintenance

£15.5bn
Business process outsourcing

£31.7bn
Facilities management

£48.1bn
Outsourced frontline public services

£75bn
Telecoms, IT and data services

company so they can remain competitive and employ more people where there are local skillsets available, and also then have the time and resources to train fresh talent, be they apprentices or new graduates."

According to Dr Aleksej Heinze from the Salford Business School's Centre for Digital Business, outsourcing plays a particular role in boosting the fortunes of smaller companies. "As a small business you need to be efficient at what you do and you can't do everything at the same level of efficiency if you have a small operation," he says. "Because of the complex nature of technology, there are often times when you can' be an expert in everything. We're getting to a level of digital outsourcing opportunities where small tasks, such as designing a logo, creating a PowerPoint presentation, could be done at low cost by experts.

"We're getting more accustomed to the idea that we need things done quickly and there is no stopping digital communications at any time. Outsourcing is becoming a major opportunity for small and medium-sized enterprises to tap into resources and can help them to develop their competitive advantage."

Independent research commissioned by Aspect, a software provider and carried out in August among organisations that provide BPO services, showed that 94 per cent of those asked believe the values of their organisation's new business contracts are "higher to some extent" in 2015 than in 2014. However, more significantly, around two thirds are planning to increase investment in technology, environment, processes and training. As a sales point, a "skilled workforce" ranks, at 60 per cent, nearly as highly as being "cost effective" (62 per cent).

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> **Outsourcing is a big part of the economy and it's not just about Indian call centres – it's about companies running more efficiently and focusing on their core skills**

As the debate continues about the UK's position as a low-skilled, low-wage economy, outsourcing companies are clearly investing more in training and development. One consequence of having a more skilled work force is that outsourcing companies will have to pay higher salaries, further increasing their contribution to the UK economy.

The Contact Company launched in Merseyside in 2006 and is now one of the largest independent contact centres in the UK, with more than 1,500 staff at peak times operating at two sites. Its remit has grown significantly over the past few years and its services now include customer call-handling, inbound sales and complaints, e-mail and social media queries, live chat and data capture. One client is retailer Rakuten, formerly Play.com, which has decided to "reshore" its services.

"Currently more than 95 per cent of the Contact Company's staff are studying NVQs [National Vocational Qualifications], ILM [Institute of Leadership and Management] courses or similar and every staff member has a personal development plan," says Asif Hamid, its chief executive. "Since launching, we've committed to re-investing at least 20 per cent of annual profits into training. So far that totals almost half a million pounds." Technology is the key driver of the need to upskill, he says, and the costs of training are easily recouped.

Mr Hamid believes investment and staff training are the only ways to ensure outsourcing continues to contribute to the UK economy. "Outsourcing businesses must be looking ten years ahead, and identifying the challenges and opportunities," he says. "The phrase 'omnichannel' is very popular currently, but if a business is considering how to meet demand for this, then it's already too late. Future-proofing our technologies and systems is essential to stay ahead of the curve."

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KEY FACTS ABOUT UK OUTSOURCING

3.3m
people work in outsourcing, equal to 10 per cent of the total workforce

£262.8bn
generated in outsourcing revenues a year

8.7%
of all economic output is attributed to outsourcing

1%
increase in outsourcing adds £2bn to the economy each year

69.5%
of all outsourcing services are purchased by private-sector clients

Source: Business Services Association/Oxford Economics 2015

COMMERCIAL FEATURE

CURRENT STATE OF OUTSOURCING RELATIONSHIPS: THE WATERMELON EFFECT

The world of business and IT outsourcing is changing at a rapid pace, and customers are not able keep up, largely because of a lack of executive attention and skilled experts. The need of the hour is a fresh approach towards innovation, automation and customer centricity – taking customers from discontentment to delight

R Srikrishna
Chief executive officer

Hexaware
TECHNOLOGIES

Companies from across all industry sectors are looking to their outsourcing partners to harness the best of new digital technologies to stay ahead of current and future competitors, while delivering a more focused customer service. Hexaware Technologies is using its innovative strategy to give clients an alternative that the digital marketplace is demanding from its participants.

A global provider of IT and business consulting services, Hexaware is led by a team of experts who have witnessed the evolution of the outsourcing industry over the last 20 years, and who understand very well how the technological advances can create new revenue streams and shake up well-established industries.

At a time when outsourcing vendors should be leading the way for their clients and ushering in the golden digital age, what is ironic is how very few vendors are able to deliver the value clients expect from their outsourcing contracts.

Hexaware's chief executive officer R. Srikrishna says: "I have seen the changes that have taken place in our industry; organisations shifting their focus from their customers as a priority to their profits. The result is often a poor relationship between the customer and its outsourcing partner."

What has led the industry into this current situation? According to Hexaware, it is a phenomenon known as the "watermelon effect". On the outside, a watermelon is smooth, shiny and green, but under the surface it is red and very fragile. The stark contrast is symbolic of the sub-optimal relationships that exist between companies and their outsourcing partners.

Part of the problem is that over the years many outsourcing companies have become too big and therefore unable to provide the right attention and quality of service to most of their customers. Yet, customers continue to use the service provider, not because they are truly delighted, or even satisfied, but because they cannot see an alternative.

Many of the large outsourcing companies have pursued growth relentlessly and aggressively, and done it using a pyramid strategy, where new recruits especially fresh college graduates are added in large numbers to perform low-level manual tasks and improve the margins of the outsourcing contracts.

These individuals are picked out of college and put into a job, often with little or no experience, and no understanding or insight in terms of how the hyper-competitive digital world operates. As soon as they have gained a couple of years' experience, working on the same account, they are moved into a more senior role, taking with them all the knowledge about the customer's business that has been built into the team. No knowledge management system can compensate for this.

Hexaware takes the anti-pyramid approach. Consultants stay with the same client account for at least four years, which strengthens the customer relationship, and enables the retention of skills and knowledge within the organisation.

The company brings together the best of its talent pool and cutting-edge digital technologies to deliver the best business value to its customers. Employees are encouraged to think about innovation and share their ideas with each other and with their client managers on how to improve operations on an ongoing basis. Indeed, Hexaware often contractually commits to such ideas and considers this a fundamental part of an outsourcing vendor's role.

Hexaware account teams are extremely agile, independent and have freedom to make decisions. In doing so they also create a greater customer-led culture within the organisation.

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> **Part of the problem is that over the years many outsourcing companies have become too big and therefore unable to provide the right attention and quality of service to most of their customers**

But pyramid strategy aside, a perfect storm is brewing and causing real challenges for the largest of outsourcing service providers – and that is automation.

The technology behind automation and robotics can help companies streamline their operations, improve product quality and cut costs, as many in the manufacturing, retail and distribution, and automotive sectors have already done.

Hexaware firmly believes that a new era of automation is setting in that could eliminate 30 to 50 per cent of the activities that a typical outsourcing partner delivers today, especially those manual activities performed by fresh inexperienced graduates at the bottom of the pyramid. Automation can create added value to clients beyond that which their traditional outsourcing vendors are able to provide.

In addition, Hexaware believes few of the large established outsourcing vendors are capable of shrinking their own revenue base so dramatically, being so heavily dependent upon the traditional pyramid model to deliver services. Delivering the full potential of automation to clients has associated human, social and revenue impacts that large vendors just cannot ignore.

Within the largest outsourcing vendors, the size that was once their strength becomes their liability, for they lack the agility to adapt to the change automation is unleashing. And in the process the customer loses out; not only do they continue to pay between 30 per cent and 50 per cent more than they should, they are doing so to vendors that use their environments for training and rotating fresh graduates at the bottom of their pyramids.

For a company such as Hexaware, its "right size" becomes one of its greatest assets, and its commitment to use automation and deliver financial benefits to its customers beyond what the market is willing to provide is further strengthening its market position.

Hexaware has no plans to embark on a high-volume client acquisition strategy. Instead the company has set out a strategy to acquire only a handful of new customers every quarter. At that rate of acquisition the company knows it can deliver on its commitment to provide executive attention and build relationships that are deeper and stronger, and be in a better position to understand their customer priorities.

The leadership team at Hexaware has a six-pronged strategy to deliver a world-class customer experience to its outsourcing clients, based on the pillars of strategy, understanding of the customer's business, design, measurement, governance and culture.

This team is now looking to apply these principles on the bottom 80 per cent of the clients of the largest outsourcing companies. Offering clients the best technology services available and a more productive customer relationship with their outsourcing partner could be a real game-changer for the outsourcing industry.

Mr Srikrishna illustrates this by recalling a recent client acquisition at Hexaware. He says: "This company had been with their previous service provider for eight years and they made it very clear to me that switching service providers was not a decision they made very easily.

"What it came down to was they were paying a lot of money, but in return were not delivered a service that was world class by any means. Even when they pointed out that they weren't happy, the provider didn't listen. The reason they came to Hexaware is not because of money, but because we provide them with the right level of service and attention."

Hexaware's message to companies across all industry sectors is simple. They can let the status quo continue with their outsourcing providers or they could significantly increase the value they derive from new digital technologies simply by changing their outsourcing partner for one that is at the forefront of technological advances, is very customer focused and will deliver on all its outsourcing promises.

For further information please visit www.hexaware.com or e-mail info@hexaware.com

Outsourcing is no longer a dirty word

Outsourcing was once synonymous with cost-cutting and job losses, but has now come of age as a valued service

◆ **PERCEPTIONS**

● **REBECCA BRACE**

Outsourcing has not always been regarded warmly by businesses or indeed by their employees. Often associated with cost-cutting and redundancies, outsourcing has not benefited from being mistakenly conflated with offshoring, whereby processes are shifted to low-cost markets overseas.

This negative image was illustrated by a survey published by the National Outsourcing Association (NOA), which¬ ¬ found that 22 per cent of people cited outsourcing as a profession they dislike.

However, the survey's respondents also indicated that their opinion of outsourcing would improve with sufficient proof of the sector's contribution to UK jobs and the national economy.

Recent figures have illustrated the value of outsourcing by both these measures. According to the Business Services Association, the outsourced and business services sector accounts for 9.3 per cent of gross value added to the economy and employs 3.3 million people in the UK.

Growth is expected to continue across a wide variety of activities. For example, Deloitte's 2014 Global Outsourcing and Insourcing Survey found that 26 per cent of respondents were planning to outsource elements of their IT function in the future, with 53 per cent already doing so.

As outsourcing has continued to become more prevalent, attitudes towards the sector have indeed begun to thaw. "In the last five to ten years, outsourcing has gone from being a dirty word to a common tool used by most mid-to-large-sized businesses," says Punit Bhatia, head of business process outsourcing advisory at Deloitte.

Initiatives such as the NOA's Outsourcing Works campaign, which aims to present a more accurate picture of the benefits of outsourcing, may have helped to raise the profile of outsourcing. At the same time, the reasons for using outsourcing have begun to change, with some companies refining their views on the value that outsourcing brings to their businesses.

In the past, outsourcing was regarded first and foremost as a cost-cutting exercise, but for many companies, cost reduction is no longer the main reason for taking this approach. "While saving cost is still important, it has gone from being the primary driver to becoming a by-product of an outsourcing programme," says Mr Bhatia.

This is backed up by research published by Grant Thornton last year. Improving efficiencies was cited as a driver for outsourcing back-office services by 57 per cent of business leaders globally compared with 55 per cent who cited cost reductions. Other common drivers included business continuity, better access to expertise and allowing staff to focus on core strategy.

> **"** *In the last five to ten years, outsourcing has gone from being a dirty word to a common tool used by most mid-to-large-sized businesses*

While connotations of job losses have not helped the sector's image, it is also evident that outsourcing can bring talent-related benefits. In practice, recruiting, training and employing in-house staff for every activity may not be the best solution for every company.

"Talent is core to most organisations, but the question is not always whether you can attract it, it's more whether the business wants to invest in talent in an area that is not core to their business," says Chris Stancombe, chief executive, business process outsourcing at Capgemini.

Mr Stancombe says companies choosing to outsource certain activities can access a broader pool of flexible talent across the globe. Employees working for the providers can also benefit. "For employees who join an outsourcing provider, they have the opportunity to broaden their experience in different service areas and across different sectors," he says. "This amounts to greater development in their professional capabilities and improved career prospects."

However, it should be noted that employees working for outsourcing providers do not necessarily benefit from better terms and conditions, at least where public services are concerned. Earlier this year, for example, a report published by the Smith Institute and UNISON, one of the UK's biggest trade unions, found contractors were earning as much as 15 per cent less than the lowest paid council employees.

Outsourcing's image may be improving overall, but for individual companies, experience can play a significant part in determining how outsourcing is perceived. For example, organisations which have more experience of outsourcing may have a greater level of trust in their providers than companies using outsourcing for the first time.

"Those companies which are less familiar with outsourcing tend to go into it more cautiously, so we need to build that trust to help them get the best out of the relationship," says Mr Stancombe.

Other companies maintain that outsourcing is not the best solution for their business. "We've taken the decision to avoid outsourcing wherever possible and manage many of our key business functions in-house," says Will Rees, co-founder of family business Direct Online Services, which specialises in solid-wood worktops. "This has been a core part of the business strategy since launch and, because our company has grown so quickly, taking this approach has helped us to keep tight control of costs."

Nevertheless, with more companies expecting to outsource selected activities over coming years, it seems some progress has been made in addressing the negative connotations associated with this sector. Outsourcing may not be right for every company, but with fewer misconceptions surrounding the topic, companies will be better placed to choose based squarely on the facts.

Capgemini

Polish offices of French group Capgemini, one of the world's largest outsourcing companies

22%

of members of the public asked cited outsourcing as a profession they dislike

Source:
National Outsourcing Association

WHY BUSINESSES OUTSOURCE BACK-OFFICE SERVICES

Global survey of senior executives from private companies

Improving efficiencies	**57%**
Reducing cost	**55%**
Ensuring business continuity	**45%**
Better access to expertise	**45%**
Allowing staff to focus on core strategy	**43%**
Mitigating risk through using specialists	**42%**
Reducing staff headcount	**35%**
Ability to cut outsourced staff more easily than employees	**33%**

Source: Grant Thornton 2014

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CASE STUDY: OK DINERS

OK Diners

For Dafydd Poole, owner of UK-based American-style diner chain OK Diners, outsourcing all possible processes seemed like the natural choice following a management buyout from the Restaurant Group in 2001. "Because we'd run the division for a larger company, we could see that with all the different divisions and departments it was almost like outsourcing anyway – for example, the accounts func-tion looked after seven different restaurant chains," he explains. "Instead of employing people ourselves, we decided to take the same approach."

The first step was to outsource finance to management accountancy firm Jugglers, which provides a complete range of management accounting services. As well as payroll, these services include a virtual head office function, answering a dedicated phone line as OK Diners and dealing with all mail. Since then, OK Diners has outsourced purchasing to a food buyer as well as a non-food buyer for utilities, furniture and equipment. Other areas which have been outsourced include health and food safety, human resources and marketing.

Mr Poole thinks that many directors are wary of outsourcing due to a fear of the unknown and concerns about a loss of control. "People also think that if they keep everything in-house, it's more cost effective," he says. "But I'd disagree. If you buy those services in, you don't have to worry about premises, rent rates, holidays, sickness or recruitment. You have the reassurance of fixed costs that aren't going to escalate over the course of the year."

He concedes that outsourcing so many processes may be unusual in the catering industry, but says the approach makes perfect sense. "This removes a whole layer of day-to-day issues which would take me away from the core of my business and allows me to do what I'm good at," he concludes. "I'm surprised there are not more small chains doing the same because many of them end up overpaying for little bits of service or soaking up time which could be spent more productively."

Make way for the new outsourcing ecosystem

Commerce is rife with disruption, with the Ubers and Airbnbs overturning traditional business models, and new technologies transforming convention at a terrifying pace

KERRY HALLARD
Chief executive
National Outsourcing Association

" Disruption in the outsourcing industry over the past 12 months surpasses changes seen during the last 12 years. Some say outsourcing is set to become the industrial revolution of the 21st century, while others claim the end of the industry is nigh.

To determine what the future actually has in store, the National Outsourcing Association launched *Outsourcing in 2020*, an industry-wide study to discover what the face of modern outsourcing will look like in five years' time.

The results were extremely positive and forecast significant change. Firstly, our research indicated that outsourcing's popularity will grow between now and 2020, with the vast majority of respondents planning to increase their use of outsourcing and only a select few indicating they will be scaling back their outsourcing activity. So much for the impending death of the industry.

The research also revealed that the drivers motivating companies to outsource are changing and in a thoroughly contemporary manner. Yes, cutting costs was still a significant driver – it always is – but for the first time we saw accessing new digital technology and improving the end-customer experience were comparably popular as reasons to outsource.

Both service providers and their clients were also in favour of sharing risk to reap greater rewards from their outsourcing, with four key changes to the future of outsourcing contracts expected. Contract values will be more outcome-based, providers will be contracted as systems integrators sharing risk, procurement will become a more important part of the process and notice periods will become significantly shorter.

On the buy-side, many companies expect to transition to cloud and as-a-service models, where they only pay for what they use. Across the board, there will be increased investment in a number of exciting areas, including innovation, digital, data analytics, robotic process automation and artificial intelligence.

Meanwhile, don't expect to see any renewed investment in reshoring or backsourcing; it's unlikely there will be a significant increase in offshoring either.

While there's clearly going to be a lot of technological investment in the build up to 2020, it's important to remember that technology is just the enabler. In the future, a multitude of best-of-breed vendors will utilise this technology to deliver to the needs of their clients, namely customer-centric operations.

> **A new breed of niche, specialist service providers is set to gain significant market share from their larger competitors**

Data has become the new gold and service providers will have an essential role to play in mining it, refining it and keeping it secure on behalf of their clients.

The picture that *Outsourcing in 2020* has painted is that of a dynamic, new outsourcing ecosystem, with the industry set to become simultaneously more collaborative and more competitive. A new breed of niche, specialist service providers is set to gain significant market share from their larger competitors. Established outsourcing giants will need to partner with their smaller adversaries or, in some cases, face extinction.

The speed and willingness with which these companies adapt and develop new skills will determine who wins and who loses in 2020. Some big outsourcing names will disappear in the next decade as a result.

The full *Outsourcing in 2020* research report, complete with statistics, will be available in the *Outsourcing Yearbook 2016*. To receive your free copy early next year, go to the National Outsourcing Association website and register your interest. "

A new world of destinations

A number of countries are catching up India and other traditional outsourcing destinations as they develop labour-force skills
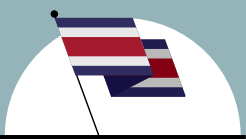
◆ 10 TOP EMERGING COUNTRIES
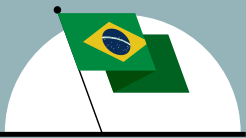
● KATHRYN HOPKINS

MEXICO

A.T. Kearney has ranked Mexico in fourth place out of 20 in its Rising Stars of IT Outsourcing Index, just behind India, China and Malaysia, and says the country has many hubs for the IT industry, notably Guadalajara, which has a big talent pool and low labour costs.

The consultancy says most US IT firms have already established delivery centres in Mexico, with HP and IBM the leaders, and while the Latin American nation's labour cost arbitrage is not as large as India, for some buyers "proximity tilts the balance in Mexico's favour".

According to a report by A.T. Kearney, the global consultancy group, Mexico, alongside China, is starting to catch up with India as a major hub for IT outsourcing. In recent years, it has attracted US companies with its strong language skills, 500,000-strong IT workforce, its closeness to America as well as its time zone.

COSTA RICA

and the most stable of all the countries in the Americas, in its analysis of offshore destinations.

The World Economic Forum ranked it first in Latin America and 34th in the world for research and development collaboration between universities and industry, while PayScale found that it offers competitive labour rates for software engineers and programmers compared with other Latin American countries.

However, an area of weakness is its size and ability to scale its IT labour pool as Costa Rica's IT services and sourcing industry grows, according to Gartner.

It may be small with a population of fewer than five million people, but Costa Rica's government has not let that prevent it from attracting overseas companies to set up offices in the rain-forested Central American country.

The benefits are much greater than its size, according to Gartner, the market research company, with Costa Rica's political environment considered to be the safest

BRAZIL

However, it appears Brazil's worsening economic outlook and ongoing political turmoil hasn't impacted its attractiveness as a global centre for outsourcing. It jumped from 12th place to eighth in A.T. Kearney's Global Services Location Index 2014.

It described Brazil as a "software powerhouse" with several cities where global services operators should consider setting up shop, including Rio de Janeiro, Campinas, Curitiba, Porto Alegre and São Paulo.

Brazil's economy, currently the seventh largest in the world, is in pretty bad shape. Inflation is at a 12-year high, corporate profitability has slumped and consumers' purchasing power has tumbled.

Moody's, one of the big three credit rating agencies, is this year expecting a sharper recession than previously forecast of -2 per cent.
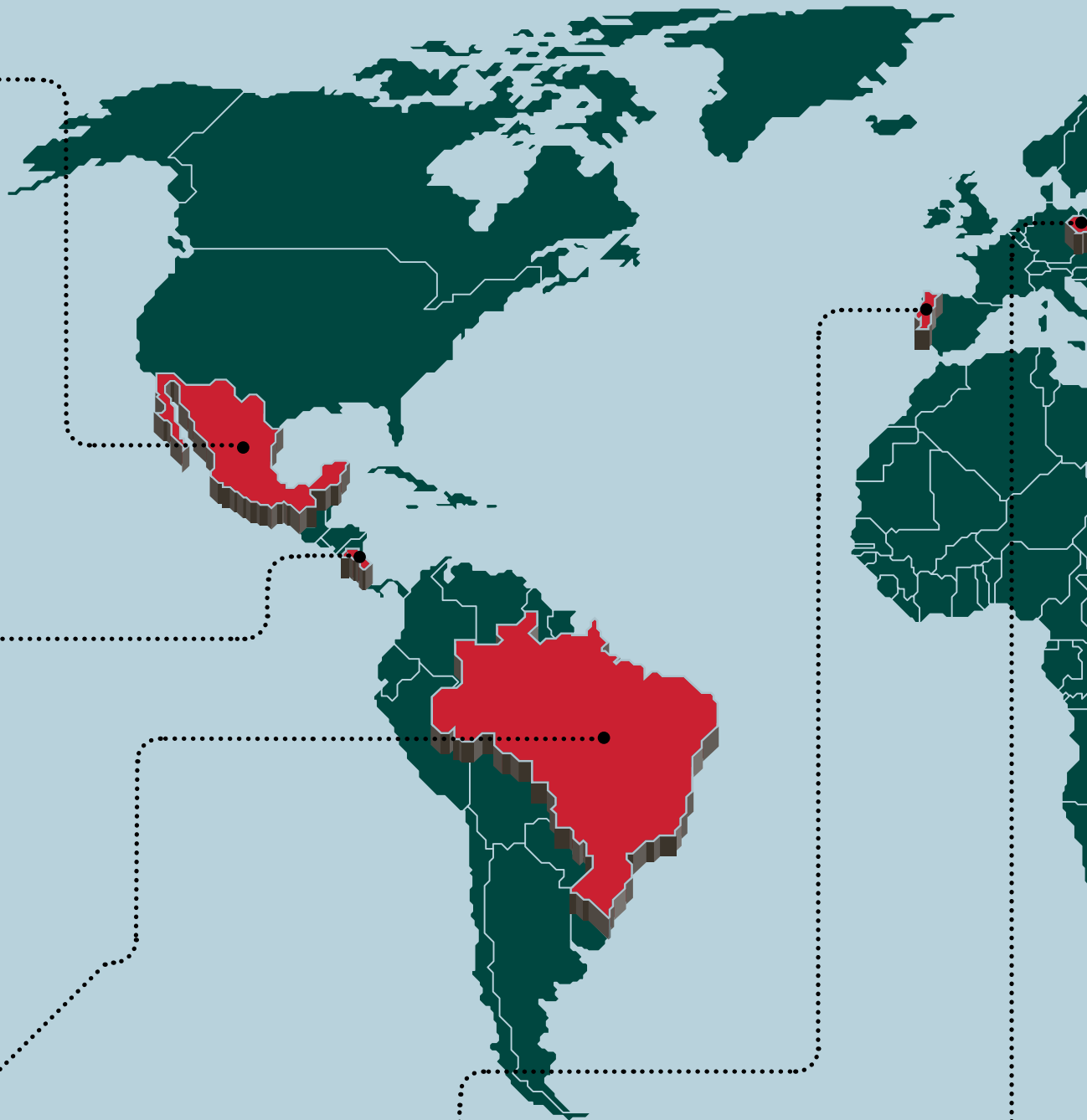
PORTUGAL

at around 12 per cent.

Gartner believes Portugal maintains an attractive position as a near-shore destination for providing IT services to clients in Europe and, to a certain extent, as an offshore location for Latin America. These companies are attracted by its strategic geographic location, a qualified talent pool and some multi-language capabilities.

"In fact, in a persistently challenged economic situation, multinational companies are capitalising on Portugal's low wages and high level of unemployment to support call centres and customer service hotlines," Gartner says.

Portugal's economy suffered greatly in the aftermath of the global downturn, leaving its government no choice but to go to the European authorities with its begging bowl and ask for a financial bailout to stay afloat.

However, since then Portugal has made good progress and finally exited the bailout programme last year, although its unemployment rate is still high

CZECH REPUBLIC

of IT services skills, spanning a range of business process outsourcing competencies, a wide variety of application services and some infrastructure management capabilities.

It ranked 36th out of a 189 in the World Bank's latest annual Ease of Doing Business Index and, the European Commission is forecasting, will record economic growth of 4.3 per cent this year and 2.2 per cent next year.

Accenture, Atos, CSC, Fujitsu, HP, IBM, Infosys, Tieto and T-Systems are among some of the companies that operate in the Czech Republic.

The Czech Republic is holding on to its title as a major player in outsourcing in Eastern Europe, with costs, including salaries, remaining competitive, although they are not the lowest in the region, according to research by Gartner.

The market research group found that in locations, such as Prague and Brno, and increasingly in Ostrava, it is possible to find a wide variety

for outsourcing services…

s and offer an attractive alternative. Here is Raconteur's pick of the newcomers
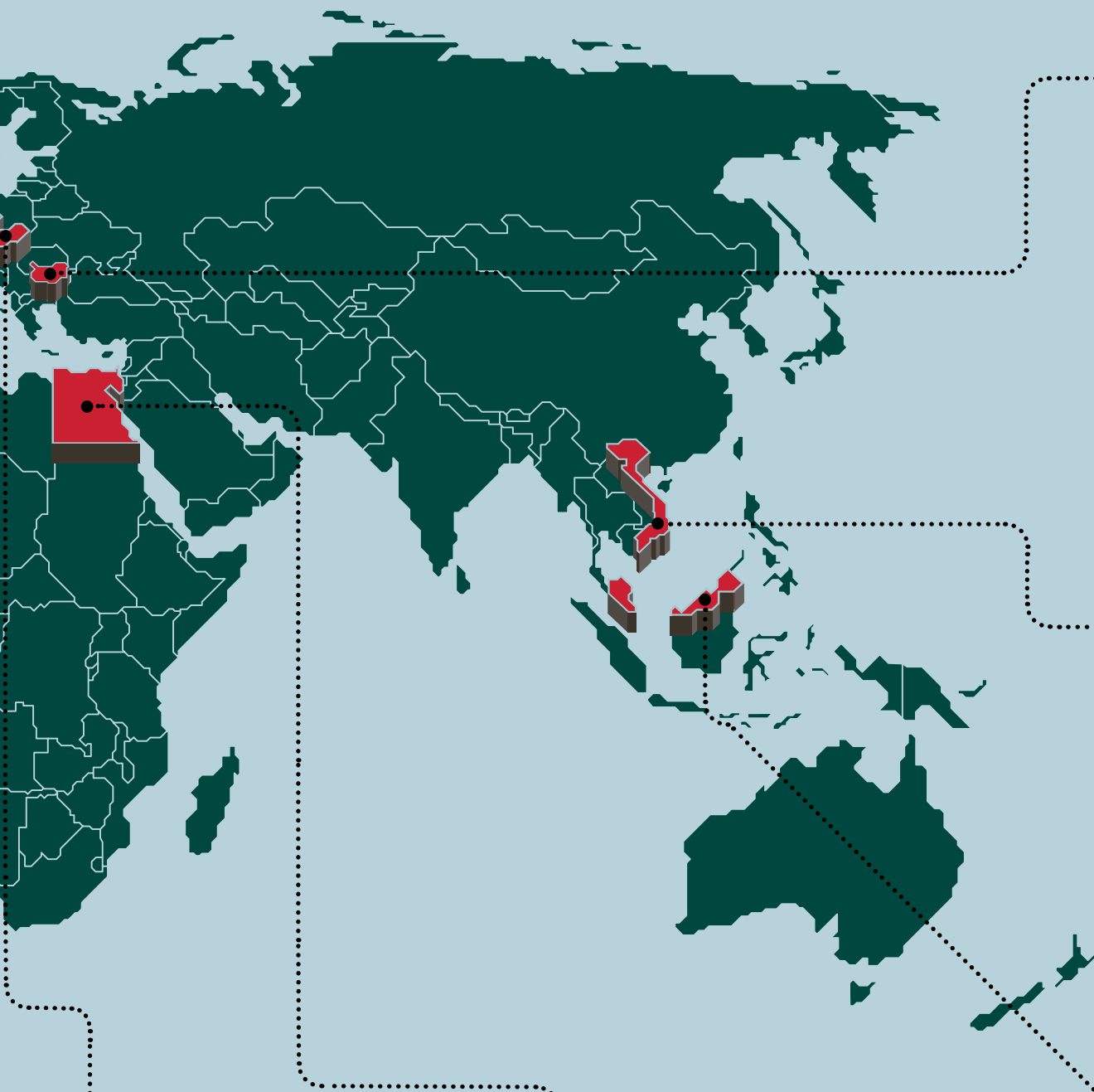
BULGARIA

Often regarded as one of the poorer European countries, Bulgaria has been earning a reputation as an attractive place for foreign companies to set up IT centres. These tend to be focused mostly on traditional software development for captive players such as CSC and SAP.

However, one drawback, according to recent research by consultants A.T. Kearney, is that it has not yet implemented data security directives from the European Union, which may mean the country may not be suitable to handle sensitive customer information for clients with a European customer base.

It is ranked in ninth place in the consultancy group's Global Services Location Index 2014, higher than any other nation in the same region. The annual index monitors financial attractiveness, people skills and availability among others.

Bulgaria is ranked 38th out of a 189 in the World Bank's annual Ease of Doing Business Index 2016.

VIETNAM

Vietnam has been named as one of the UK government's trade arm's 20 high-growth nations and economists believe it has huge potential in the long run.

Notably, 60 per cent of its population of 90 million is aged under 30 and the Vietnamese authorities are working hard to create a broadly based and more highly skilled workforce.

This makes it a contender to become a major outsourcing destination in the future and, according to a recent report by accountancy firm KPMG, it is already considered an attractive destination for IT outsourcing services thanks to its young and well-trained workforce, competitive cost structure and stable business environment.

Around 98 per cent of respondents to the survey rated Vietnam as an attractive market for IT outsourcing business and indicated they will invest in expanding their business in Vietnam.

The survey also found the labour force in Vietnam to be eager, hard-working and quick to adapt to technological change, although language skills seem to be a barrier.

HUNGARY

According to Gartner, it is possible to find a wide variety of IT services in Hungary, such as business process outsourcing and infrastructure management services, even if the country's strength appears skewed toward application services.

Service providers operating in Hungary include Atos, Epam, Getronics, HP, IBM, Neoris, Tata Consultancy Services, T-Systems and Unisys.

However, it still has the lowest level of foreign-language proficiency in the EU, although its government continues to invest in education. The corporate sector's tax burden is high, compared with other European countries, but tax advantages for shared-service centres are available.

EGYPT

Egypt has had a difficult time over the past few years, with the Arab Spring and terrorist events in tourist destination Sharm el-Sheikh.

Nevertheless, National Outsourcing Association chief executive Kerry Hallard believes Egypt is looking in "good shape", with costs remaining significantly lower than most neashore destinations, while the graduate talent pool is high, and the domestic and regional markets are growing.

"Egypt has a population of 85 million of which 50 per cent is below the age of 25. There is a graduate pool of 500,000 and 49 per cent of the working population are in the services sector," she says.

"Today Egypt has some 90,000 employees working in the sourcing sector of which 50,000 serve overseas markets. Language capabilities are high, Arabic being the mother tongue, but English is the business language that almost all graduates are fluent in."

However, A.T. Kearney argues Egypt's political instability is overshadowing its attractive IT outsourcing capabilities, although it believes that with recent investment in IT, Egypt has the elements to become a global player.

MALAYSIA

A.T. Kearney believes Malaysia, which came in 18th place in the World Bank's Ease of Doing Business Index 2016, has the potential to become a global player offering specialised IT service capabilities. It benefits from advanced English skills and cultural adaptability, which could put the country in a position to capture demand from both the UK and United States, once they expand their service offerings.

In particular, it has a highly trained workforce, which will no doubt be viewed by foreign firms as an attractive asset. Outsourcing Malaysia estimates the country produces more than 135,000 graduates annually with bachelor degrees. Many of these will have knowledge of customer relationship management, facilities and administration, IT, and human resources services. What's more, according to National Association of Outsourcing, the country places high emphasis on education, with many students studying overseas at top institutions and returning with credible high-class degrees, giving Malaysia a large talent pool.

COMMERCIAL FEATURE

HOW TO NEGOTIATE THE PERFECT CLOUD CONTRACT

Cloud contracts can be fraught with dangers. Here's a guide to what to demand and what to avoid

T··Systems·

By now we are all familiar with the benefits of using the cloud. There's the seamless scalability, lower running costs, lower carbon footprint, an end to capital expenditure and so on. Today the real question is what types of cloud provision do you need and how can you get the ideal contract?

It's not easy. The truth is that in the rush to adopt the cloud some rather questionable practices have sprung up. Take the issue of contract length. Some organisations are signing deals lasting five to seven years. This is an aeon in terms of technology. A change in business model could render the deal obsolete in year two, with no escape.

Long contract lengths also contravene the ethos of the cloud. The whole point is to be flexible. Businesses should be able to "flex" their demand whenever needed. Such long contracts negate this.

Then there's cost structure. Some cloud deals include a high fixed-cost component – it can be as high as 85 per cent of the overall bill. This means that if demand halves, the cost will barely budge. Again, this runs contrary to the purpose of using the cloud.

So what should the ideal contract stipulate?

Regarding length, customers should ensure that a contract protects their interests and not those of the provider. The govern-ment now mandates this with procurement through its G-Cloud framework with sales terms and conditions that stipulate just 30 days cancellation notice. Commercial sector providers must do the same.
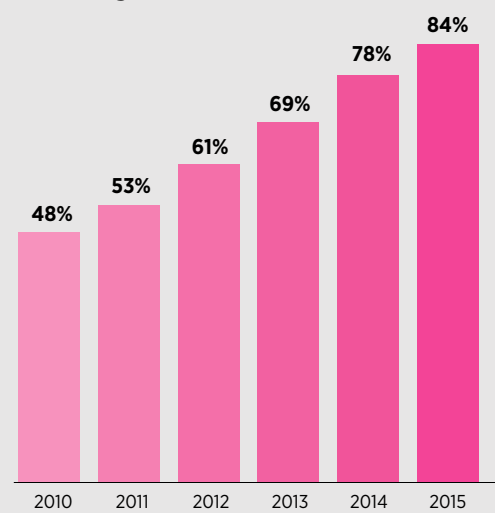
For example, T-Systems is currently in the process of launching the un-outsourcing concept, a programme that will allow customers to walk away penalty free from certain services regardless of how long they still have to run on their contract.

On cost, fees should scale with usage and there should be no fixed element. Clients only pay for what they use. This gives businesses real freedom to experiment with products. It becomes possible to launch a new offering with very little in the way of risk. If demand is low, the costs stay low. If there's a rush of demand and there is a rapid need to scale, then costs rise commensurately.
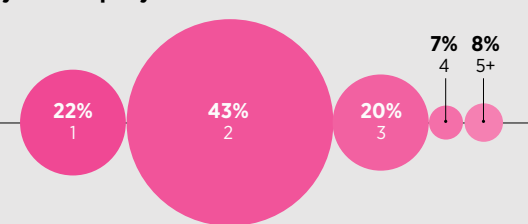
Again, this fee structure will not be found at all cloud providers. If it isn't on offer, then think twice about signing.

The ideal cloud contract will give access to multiple "flavours" of cloud. By now most businesses grasp the merits of the variations. There's public cloud, where data is stored in a general purpose datacentre accessed by the user over the internet. The hardware is shared by custo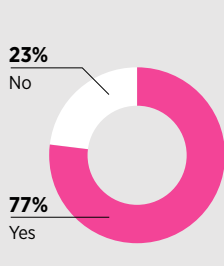mers, not that they are necessarily aware of the particular arrangements. This is best for large-scale deployments of moderately sensitive data, with a need to tap into commodity-like pricing.
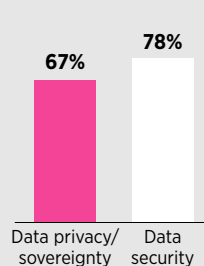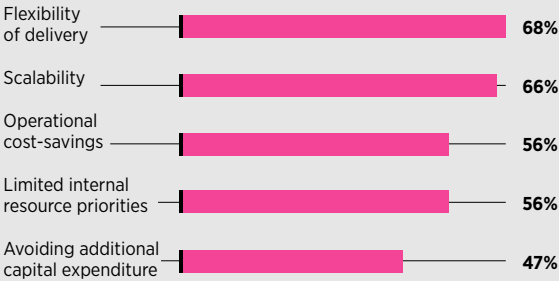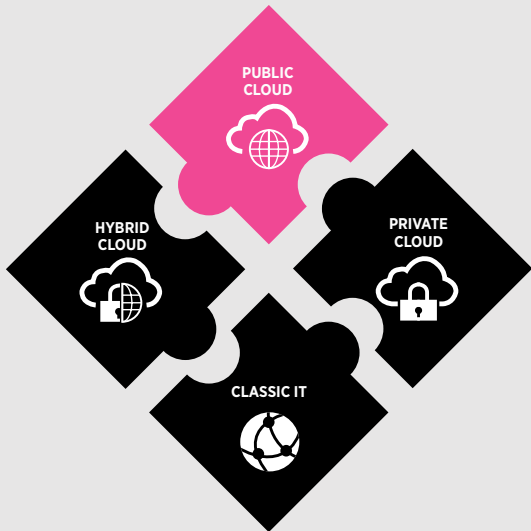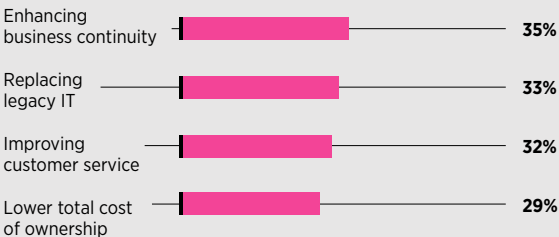
Then there is the private cloud. This set-up gives businesses their own dedicated infrastructure which may be needed to meet regulations, governance or data privacy needs. Pharmaceutical companies, banks, and research and development-intensive companies tend to favour private clouds for very sensitive data or workloads. In reality the right choice for most people will be a blended hybrid solution using both public and private clouds.

When choosing a cloud provider it is vital to ensure there is a mix of public and private cloud on offer. If the provider only offers one flavour of cloud, they may recommend whatever they can supply, not what the client actually needs.

A cloud provider must offer the latest technology. For example, SAP HANA offers in-memory computing for ultra-fast data access. A number of T-Systems customers use the Dynamic SAP HANA platform to run real-time business analytics. By using a cloud-based solution, these customers avoid the significant lead time and capital expenditure associated with an on-premise solution, and can expand their programme as needed.

One crucial but overlooked element when selecting a cloud supplier is the "single broker" role. Customers often have complex needs. This entails a mix of cloud provision by multiple cloud providers. Some chief technology officers juggle ten contracts simultaneously as a result. This is a needless distraction.

The answer is to find a cloud vendor that takes on the role of a broker in addition to service provider. This vendor will offer their services in tandem with those of rival providers. The single-broker approach simplifies contracts. It becomes possible to negotiate superior service level agreements. It also lowers cost. A cloud vendor acting as broker can negotiate much better deals than a lone business approaching multiple cloud providers in turn.

Data location is a key consideration. The European Union repeal of the safe harbour agreement on data makes it more important than ever to pay attention to where data is stored. There are strict legal requirements to be upheld. The challenge is to store each piece of data in the right geographic location, without running into latency problems caused by multiple hosting provision.

When it comes to ethics your chosen provider should be beyond reproach. Transparency International provides a global ranking of telecom companies based on clear reporting, anti-corruption and transparent structure. The 2015 report placed Deutsche Telekom, T-Systems' parent, as the world's most ethical provider.

Set-up should be quick. If a cloud provider takes months to prepare a service, then alarm bells should be ringing. Set-up costs or hardware fees are really just a hosting solution with a bit of crude cloud marketing.

Edmund English, head of marketing at T-Systems, says there are some key things you need to consider. "A provider should be able to offer both private and public flavours of cloud, including the ability to act as a broker to other third-party offerings as needed," he says.

"Make sure their solution addresses the challenges associated with the recent safe harbour ruling, provides genuine elasticity in both directions and don't commit to a contract that doesn't support change – markets move quickly and you need to be able to respond."

When you get the cloud right it can deliver extraordinary benefits. Using T-System's cloud, the Caravan Club can ensure their one million users can book pitches with no delay throughout the year, even when next season's places are released, which typically sees a huge peak in online traffic.

The cloud can offer limitless scale, dramatically lower costs and simplify your IT – it all begins with the right contract.

Open Telekom Cloud, a new European public cloud platform is brought to you by T-Systems, a division of Deutsche Telekom, launches in March 2016. To find out more visit t-systems.co.uk

> **A provider should be able to offer both private and public flavours of cloud, including the ability to act as a broker to other third-party offerings as needed**

UK cloud adoption rates: changing the classic outsourcing model

- 2010: 48%
- 2011: 53%
- 2012: 61%
- 2013: 69%
- 2014: 78%
- 2015: 84%

Motives cited for initially moving to cloud

- Flexibility of delivery: 68%
- Scalability: 66%
- Operational cost-savings: 56%
- Limited internal resource priorities: 56%
- Avoiding additional capital expenditure: 47%

Which business objectives are driving cloud investment in your company?

- Enhancing business continuity: 35%
- Replacing legacy IT: 33%
- Improving customer service: 32%
- Lower total cost of ownership: 29%

How many different cloud-based services does your company use?

- 1: 22%
- 2: 43%
- 3: 20%
- 4: 7%
- 5+: 8%

Do you expect your cloud adoption rates to increase in the next 12 months?

- No: 23%
- Yes: 77%

Key considerations when moving to cloud

- Data privacy/sovereignty: 67%
- Data security: 78%

PUBLIC CLOUD

HYBRID CLOUD

PRIVATE CLOUD

CLASSIC IT

Beware robots are coming

Robots are threatening to undercut the outsourcing sector as almost everything that can be outsourced could be automated

◆ **ROBOTIC AUTOMATION**

● **CATH EVERETT**

Although the market for robotic process automation software is still very much in its infancy, it is already starting to make its mark on the business process outsourcing sector.

While most people had not even heard of the technology a year ago, awareness has grown rapidly over the last six months in particular. This has resulted in a number of companies, predominantly in the UK and United States, introducing small proof-of-concept and pilot projects to evaluate its potential for automating carefully selected business processes in a controlled way, before rolling them out more widely.

Andrew Burgess, management consultant and director of services provider Symphony Ventures, explains: "Robotic process automation or RPA implementations are mainly being done on the client side in areas of the business that haven't been outsourced. People tend
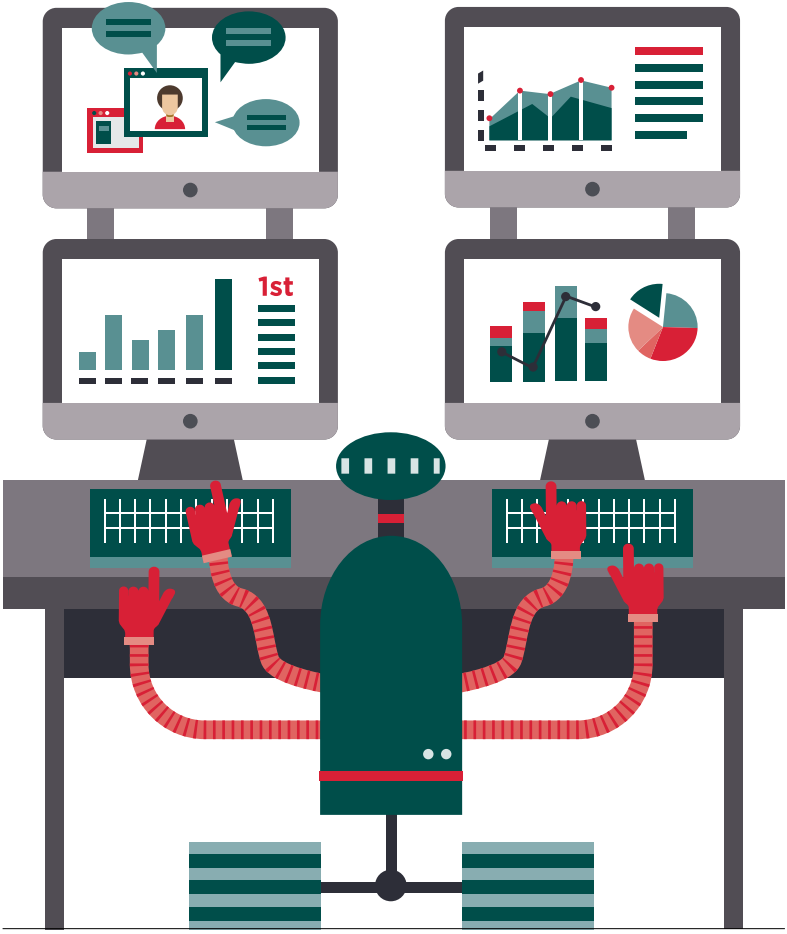
> *As customers increasingly demand processes previously performed by offshore labour be automated by robots, business process outsourcing vendors will see big chunks of their revenues and margins hit*

to look at automating in-house systems first because they've got more control and the savings are more immediate."
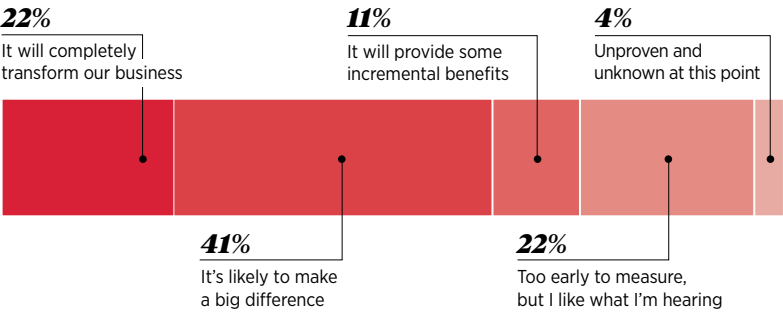
But this is not to say that the software is not starting to make its presence felt in the business process outsourcing (BPO) world too. According to a study by management consultancy Deloitte, entitled *The robots are coming*, the cost-savings of deploying RPA technology are far greater than sending them offshore. While an offshore full-time equivalent worker is on average 35 per cent cheaper than a UK-based one, a typical robot comes in at more like one ninth of the price.

This means customers deciding to go down the RPA rather than BPO route can expect to see the total cost of their service delivery drop significantly.

Tom Reuner, managing director for IT outsourcing research at HfS Research, believes that cost-savings of anywhere between 20 and 40 per cent are possible depending on the nature of the business and where it is based, simply because far fewer people are required to do the job.

HOW ROBOTIC PROCESS AUTOMATION WILL CHANGE OUTSOURCING

22%
It will completely transform our business

11%
It will provide some incremental benefits

4%
Unproven and unknown at this point

41%
It's likely to make a big difference

22%
Too early to measure, but I like what I'm hearing

Source: Virtual Operations 2014

WHAT CAN ROBOTS DO?

Shutterstock

Robotic process automation software comprises sophisticated macros that are otherwise known as "robots". These robots automate high-volume, repetitive, rule-based tasks, where workers have previously had to access more than one computer system to complete

a process. These processes are often dealt with in shared services centres or other areas of the back office.

The software works by communicating with existing applications and systems in order to process transactions, manipulate data, trigger responses and communicate with other computer systems. Unlike humans though, robots work 24x7 and produce very low error rates.

On the other hand, robots are not suited to handling processes that are highly variable, and where judgment and decision-making is required. They are also not necessary in processes undertaken by a single computer system in which there are no interfaces between different applications.

JOBS AT RISK OF ROBOTIC AUTOMATION

01 Claims or loan applications processing

02 Customer service agents, who undertake transactions and other basic support tasks behind the scenes, but do not speak to customers directly

03 Compliance reporting

04 Entry-level accountants doing low-level transactional work, such as end-of-month closure

05 Abstracting and indexing documents

It also means that customers no longer have to expend time and effort each year trying to wring additional savings out of their BPO providers.

As a result, once the technology really starts to take off, it is likely to have a huge impact on the BPO sector and particularly on dedicated, pure-play firms whose "business model is predicated on labour arbitrage", he says.

"The broader-based tier-one players will find ways of balancing things out more, although they might see a margin shortfall in the short term," Mr Reuner explains. "But not a trivial majority of contracts are either fixed price or have

fixed-price components, which makes things difficult for them too."

What this all means, says Symphony Venture's Mr Burgess, is that as customers increasingly demand processes previously performed by offshore labour be automated by robots, BPO vendors will see big chunks of their revenues and margins hit.

The Deloitte study indicates, for instance, that although only 13 per cent of the shared and global business service leaders questioned in two separate surveys expected to invest in RPA over the next 12 months, the figure leapt to 55 per cent by 2017.

"RPA is a huge threat to the BPO market," Mr Burgess warns. "It's an alternative to BPO as nearly anything that

> *The business process outsourcing industry is embracing this as it has seen the train coming*

can be outsourced can be automated. But the whole BPO labour arbitrage model is based on economies of scale and they'll disappear, so we'll see really big changes here in the next three to five years."

Therefore, this transition phase could be very uncomfortable and lead to big job losses. It will force BPO providers to "move up the value chain" to assume more of a consultancy than a process execution role, with some being better at the transition than others, Mr Burgess says.

But Raheem Hasan, president and chief executive of the Institute for Robotic Process Automation, is not convinced that the BPO sector should be written off just yet.

BENEFITS EXPECTED FROM ROBOTIC PROCESS AUTOMATION

Ranking 1 to 5: least to most beneficial

OPERATIONAL EFFICIENCY	4.9
LOWER HEADCOUNT	3.8
LASTING TRANSFORMATION	3.7
COMPETITIVE ADVANTAGE	3.4
STANDARDISATION	3.2
IMPROVED ANALYTICS	2.1

Source: Virtual Operations 2014

"The business process outsourcing industry is embracing this as it has seen the train coming," he says. "So we're seeing them forge alliance agreements and try to build out ecosystems, or either build or buy technology to integrate into their operations model. RPA is definitely in play."

But he also acknowledges that suppliers will need to rethink their business models as rolling out the technology into existing accounts will inevitably cannibalise them, leading to lower rate values and better deals for their customers.

So far though the industry itself is being unusually coy in its response to the situation mainly because it has "not yet figured out the impact on revenue and margins", says HfS Research's Mr Reuner.

This phenomenon has demonstrated itself in the fact that, while new technology is generally subject to vast amounts of hype, the fanfare around this one has been remarkably low key, not least due to its potential social and political implications.

But on asking BPO providers about the likely impact, Mr Reuner says most give a mix of three answers – redundancy, redeployment and reskilling.

"It would be naive to say that the BPO providers won't have to change, and robotics generates emotive reactions because the impact on the people side is fundamental and significant," he adds.

This impact will become even more marked as artificial intelligence software is increasingly added to the mix over the next couple of years, enabling the automation of evermore complex processes.

"Some say that RPA will be a catalyst for higher levels of automation, others that the BPO industry will be destroyed. But no one has the answer just yet – it's still too early to say," Mr Reuner concludes.

Goose Design

Jenni Arksey, owner of Goose Design, a fashion and sportswear brand design agency based in London

Aegon's web tool Retiready, built by Market Gravity

Much more to offer than the usual services

Outsource providers can turn their hand to almost anything, delivering specialist expertise on demand

◆ **CREATIVE SOLUTIONS**

● **CHARLES ORTON-JONES**

There was a glorious case of outsourcing a couple of years back when a software developer found someone in China to do his job for him. He turned up and surfed the internet for cat videos all day, leaving his counterpart to do the grunt work. The arrangement cost only one sixth of his salary. The deal only came to light when Verizon conducted a security audit and found data pinging back and forth to a Chinese IP address.

Crazy? Brilliant? Both maybe. It just goes to show what can be outsourced. Right now we tend to be pretty limited in our thinking. Stuff like payroll, human resources and call centre are mainstream. But what's next? We may soon see outsourcing eating further and further into company's structures, even into the core itself.

A salesforce is normally seen as an in-house activity. Its role needs commitment and expertise, which grow over the years. The only sales jobs which get outsourced are the contact centre ones. Well not anymore.

Salesforce-as-a-service is the idea that businesses can tap into skilled sales reps whenever needed. Universal Avenue is one of the pioneers in the space, with clients such as Spotify Business, iZettle and social gift service Wrapp.

> 66
> ### The truth is that pretty much anything can be delegated to specialists

Universal Avenue handles the recruitment and training of the sales reps. When qualified, they become freelance brand ambassadors, selling on their turf. Founder Johan Lilja says: "The brands we represent benefit from having access to an on-demand workforce of dedicated freelancers who can introduce their product, in-person, in front of key decision-makers."

The model is commission only. The idea is to help companies crack distant markets where their normal team might struggle to reach. British firms thinking of exporting to Sweden, where Universal Avenue began life, should take a look.

Product design is another traditionally in-house activity. Yet there is an increasing readiness to bring in outsiders to help.
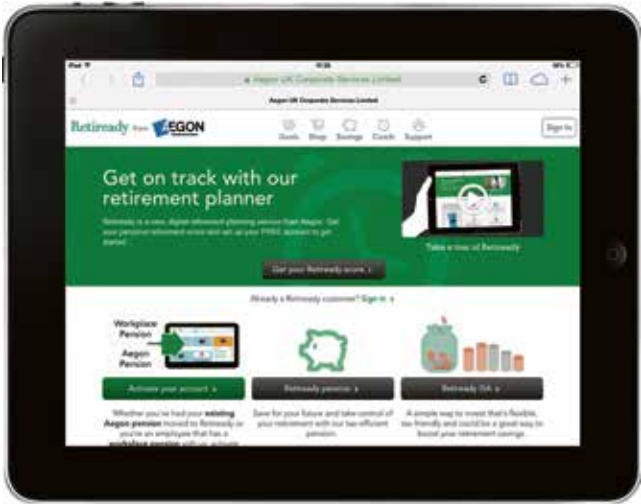
Aegon insurance is a giant in its field with assets of £250 billion. When it discovered a serious issue with pension provision in the UK, it called up an external agency to work on a remedy.

In a nutshell, Brits don't save enough for retirement. Only 7 per cent have decent provision. So Aegon wanted to create a tool to display the customer's financial position and talk them through the various options. It opted to work with Market Gravity, which did the market research and then build a web tool called Retiready.

Stephen Crosbie, customer innovation architect for Aegon, says: "Market Gravity brought skills we didn't have and methodologies we had never used before." The knowledge base of the outside agency could be added to Aegon's own. "We were able to combine this insight with our own understanding of customer behaviours and knowledge of how to secure them the best financial outcomes," says Mr Crosbie.

The more esoteric the role the riper it is for outsourcing. Project management is a great example. It was once thought to be an odd sort of job, without much expertise. Enrol on a Prince2 course lasting four days and hey, you're a project manager. Today that's changing. The value of project managers is widely understood. The trouble is experienced professionals are rare. The solution? Outsourcing.

The financial services sector is turning to outsourced project managers to implement complex, multi-stage projects. Belgian company Projective is one of the best-known names in the field. Andrew Jackson of Projective explains why outsourcing is growing in project management.

"There is a strong case to be made for outsourcing project management when specific domain expertise is needed, such as new regulations, peripheral and infrastructural technologies," he says. "Likewise, when there is there is an unusually high demand for change in an organisation, bringing in outside expertise to manage the load in makes sense.

"Companies that try to meet all project management needs in-house risk committing too many resources to cover unlikely eventualities or, more worryingly, not employing adequate expertise or experience for demanding situations."

The idea of adding third-party knowledge plays a big role. Mr Jackson adds:

KEY TECHNIQUES BUSINESSES ARE USING IN OUTSOURCING TO BOOST PERFORMANCE

Survey of senior outsourcing buyers

	Already Implemented	Likely to adopt in next three years
Multichannel engagement	48%	19%
Strategic relationship management	47%	23%
Analytics	46%	19%
Next-generation platforms	43%	19%
New sourcing models	43%	23%
New applications or workflow automation	41%	20%
Commercial and contractual incentives	40%	22%
Digitisation	35%	27%
Robotics	32%	44%

Source: Aecus 2015

"An independent voice can speak impartially and navigate internal dissension in a way no in-house project manager can. An outside perspective is also especially valuable in times of crisis, when 'group think' can easily take over and obscure the benefits of a difficult but necessary change."

Robotic process automation (RPA) is helping outsourcers take on the most unlikely jobs. Capgemini is a major outsourcer with a powerful RPA division. Lee Beardmore, chief technology officer at Capgemini's business process outsourcing unit, says it's so versatile he's getting work from a variety of unexpected sources.

"One interesting development has taken place within the recruitment industry," says Mr Beardmore. "As we all know, in today's digital age recruiters increasingly vet candidates using their social media profiles. Doing this manually takes a significant amount of time and energy.

"Recruiters can now outsource this work to us, and through the use of specialist recruitment software and social media harvesting technology we are able to scan thousands of social media profiles to provide recruiters with digestible summaries of promising candidates."

These, of course, are just a handful of the new spheres of outsourcing. The truth is that pretty much anything can be delegated to specialists. The nation's nuclear warheads are looked after by an outsourcing group led by Serco. Prisons are run by G4S.

Even fashion brands delegate their core activity of designing. Fashion brands such as Levi's, Puma and O'Neill use agencies, such as Clerkenwell-based Goose Design, when they need a bit of inspiration.

Goose Design founder Jenni Arksey is famed for her ability to help brands find a new direction for their collections. She's worked with 60 brands, and her ability to help these clients understand who their clients are and what their brands stand for is well known in the fashion industry. Naturally, when the new lines appear, she's not taking the plaudits.

Is there a role or job which can't be outsourced? If so, it's not clear what it is.

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KEY CONSIDERATIONS WHEN OUTSOURCING ›

01 Is there a competitive advantage of doing the task in-house?

02 Does the task represent a temporary or recurring need?

03 In terms of knowledge and costs, can the task be handled more efficiently externally?

04 Are the costs of the service lower than what it would cost in time and manpower to do in-house?

Source: ISS Group

COMMERCIAL FEATURE

HOW IT OUTSOURCING CAN ADD VALUE

Companies should demand more from their outsourced IT providers who should act like business partners and product developers – as with fast-growing Ukraine-based provider N-iX

Outsourcing is developing in both the size of the sector and the scope of services that it offers, but too many companies still regard it purely as a tactical solution. They see it as simply being available to meet an immediate need on a short-term basis, rather than providing a collaboration partner who can play a strategic role in helping them to develop their business.

It's a perception that Andrew Pavliv of specialist developers N-iX is keen to challenge, and he and his team are finding that more and more technology companies and independent software vendors are seeing beyond these limited, short-term benefits.

Thanks to this new way of viewing and using outsourcing providers in these sectors N-iX, which started out as a product development company, is making more of a strategic contribution to its clients rather than simply providing support in the short term when a company suddenly discovers it needs outsourcing services.

"We can help drive our clients' businesses forward because we understand software development, having been developers ourselves," he says. "Because prior to becoming a service provider we were developers of software products, we can really add value to our customers and work

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> **Their background as product developers has meant N-iX can be proactive and add value – they act as an R&D department for us in many ways...**
> Richard Bastin,
> chief technology officer
> at Lebara

proactively rather than simply carrying out their essential IT functions."

N-iX's rapidly growing roster of clients appreciate the fact that rather than simply reducing costs, thanks to its expertise it can act as a partner, working closely with them. Clients include Currency Cloud, a B2B platform providing administration and control features to automate the entire payments life cycle of businesses, Canada's largest software company OpenText and global telecoms group Lebara.

"N-iX adapted to our organisation very quickly and we get very good cooperation. We see them as part of our team, rather than just another vendor that we have to

manage," says a spokesman for another client, Anoto Group AB, a Swedish technology company that develops and licenses digital pens.

Anoto and N-iX have been working together for more than eight years. N-iX hosts a part of Anoto's research and development team, consisting of 18 developers, who work on Anoto pen firmware updates. There's also a desktop application that synchronises, controls and manages digital pen behaviour.

"Clients really benefit from the fact that we provide them with their own dedicated team who work exclusively on their projects and are fully integrated into their organisational structure, processes and culture," says N-iX's Mr Pavliv. "We can often act as a client's research and development centre too."

N-iX was founded in 2002 in Ukraine as a product startup. Its founders came up with the idea of developing software for Linux that would allow users to work with infrastructure software provider Novell's NetWare and GroupWise products.

Novell was so impressed by this technology that the company acquired it just a year later. N-iX continued to work with Novell for another seven years, developing the product further. The dedicated development centre that N-iX set up for

HELPING LEBARA TO AID ITS GLOBAL MIGRANT CUSTOMERS

N-iX has been working with global migrant brand Lebara for just over 12 months, having built a development centre that consolidates a wide range of expertise – software development, quality assurance, business intelligence development and operations, application support, database administration, infrastructure support – everything is under one roof. This way knowledge is consolidated in one place, which benefits the company in so many ways.

"We were impressed by how quickly and easily they could be integrated into our systems and diverse company culture," says Richard Bastin, chief technology officer at Lebara. "Their background as product developers has meant N-iX can be proactive and add value – they act as an R&D department for us in many ways."

The scale of co-operation encompasses support of the company's core functions and innovations. "Each direction requires different development processes and different skillsets," says Pavlo Desh-

chynskyy, vice president of delivery at N-iX. "Managing existing business, quality and ensuring responsiveness are key. To work on innovations, we need to move fast to bring the product to market. We need to be innovators to build the most valuable product, to implement and challenge new ideas."

The location of N-iX in Ukraine was another key selling point for Lebara. Mr Bastin says: "There's only a two-hour time difference between the UK and Ukraine so most of the working day overlaps, making it much easier to discuss and co-ordinate delivery, requirements, designs and other similar topics – this is a significant advantage. Similar working culture can also be a benefit."

Working with N-iX has brought other advantages, he says: "It's helped us go to market efficiently with new digital products quickly, thanks to N-iX. Essentially, and very importantly, the partnership allows us to service our global migrant customers better wherever they might be."

Novell is a good example, says Mr Pavliv of how closely the company works with its partners and clients. The success of this co-operation inspired dozens of similar partnerships with some of the leading technology companies in Western Europe and North America over the following 13 years.

With many more companies realising that N-iX can act as their strategic partner to drive their business forward, this exciting growth seems set to continue.

www.**n-ix.com**
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Closer to home has benefits for UK firms

UK companies are increasingly bringing their outsourced processes nearer home as Europe rises as a service hub

◆ **NEARSHORING TO EUROPE**

● **ALISON COLEMAN**

Advances in automation, robotics and software engineering technologies are eliminating demand for large teams of low-skilled, relatively inexperienced workers based in remote places.

Instead the focus for UK businesses will be on sourcing the right mix of next-generation skills across a range of business processes from a global talent pool and many are finding what they need much closer to home.

The result has been an increase in the nearshoring of business processes to the Continent, where there is a wealth of expertise in areas such as IT, engineering, automotive and big data, plus the benefits of a close cultural connectivity, within convenient time zones, to the UK.

And it is not just IT skills that are being sourced through nearshoring. Human resources, finance, sales and customer service functions are also on the move.

According to Mark Craddock, global business services director at Deloitte, it is Eastern European countries, particularly Poland and Romania, which are likely to benefit the most from Western European companies' outsourcing initiatives.

"This is because workers here are often highly skilled, have much lower wage costs and are just a short, cheap flight away with no travel restrictions when there's a need to bring teams together," he says.

Research carried out global business advisory firm AlixPartners revealed an appetite for nearshoring among manufacturing and distribution executives in Western Europe.

AlixPartners director Phil Jones says: "In our experience, the primary factor driving nearshoring decisions remains the potential for cost-savings. However, there are a number of other factors that play a large part in evaluating which country to outsource to and whether to nearshore or 'farshore'. Balancing cost-savings with other benefits, such as access to skills, greater speed to market or improved control over the supply chain, are important variables to consider."

The benefits of nearshoring include reduced total landed costs, incorporating labour and freight costs, as well as improved speed to market and control over the supply chain, and better control over intellectual property.

A shorter supply chain can enable more flexibility, reduced inventory and with that better customer services, while the time zone benefits of nearshoring make it easier to manage offshore operations and facilitate communications between parts of the business in terms of both time and language.

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"Businesses are increasingly being challenged to respond to faster and more dynamic consumer and corporate environments, and nearshoring manufacturing and production facilities can prove useful in meeting demands," says Mr Jones.

For the UK, the closest and most desirable nearshoring market is Central and Eastern Europe (CEE), with a diverse assembly of nation states, including the Baltics, Poland, the Czech and Slovak Republics, Bulgaria and Romania, and their emerging economies.
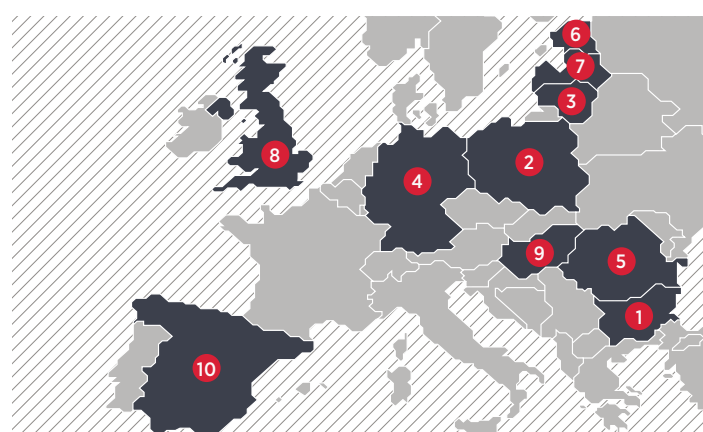
The rise of CEE as an outsourcing destination of choice is evident in the number of businesses moving more of their operations there, says Daniel Olsson, head of operations at IT outsourcing specialist Soitron UK.

Sabre and Motorola both now have significant nearshored software development centres in Poland, while firms such as Comarch, Capgemini and HCL have growing footprints there in the IT consulting field. Meanwhile, IT and business process providers Accenture, Capgemini, Genpact, Luxoft and Wipro have bases in Romania.

TOP 10 OUTSOURCING DESTINATIONS IN EUROPE

2014 A.T. Kearney Global Services Location Index ranking

● European ranking   ● Global ranking

European ranking	Global ranking	Country
1	9	BULGARIA
2	11	POLAND
3	15	LITHUANIA
4	17	GERMANY
5	18	ROMANIA
6	22	ESTONIA
7	23	LATVIA
8	27	UNITED KINGDOM
9	31	HUNGARY
10	32	SPAIN

Source: A.T. Kearney

Krakow in Poland was ranked ninth in *Tholons Top 100 Outsourcing Destinations* report for 2015

BENEFITS OF NEARSHORING

COST-SAVINGS IN LABOUR AND FREIGHT SPENDING

BETTER ACCESS TO SKILLS

GREATER SPEED TO MARKET

IMPROVED CONTROL OVER THE SUPPLY CHAIN

IMPROVED CONTROL OVER THE INTELLECTUAL PROPERTY

The team at Lisbon-based tech careers marketplace Landing.jobs

Mr Olsson says: "CEE is definitely 'happening' as a place for IT development, consulting and other forms of work that may traditionally have been the province of an India or a Philippines. But it is something of an artificial denomination, too. There are big differences in a Turkey and an Estonia, differences that the potential UK outsourcing customer will want to be aware of before they go down this route."

Poland's stable economic situation, tax incentives and close cultural affinity with the UK make it an attractive nearshoring destination. Even more valuable is its wealth of tech talent, which has led some of the world's biggest tech companies, including Microsoft and Google, to build outsource centres there.

Baltic states, such as Lithuania, also rich in technology talent, offer another alternative to offshoring. It is where Farida Gibbs, chief executive of UK-based recruitment firm Gibbs S3, has established an IT training centre to help train and educate a new generation of IT workers, who can then be engaged by British companies to meet demand more flexibly.

She says: "We saw that there were a large number of skilled people, who could potentially add great value to businesses, but who were being underused. Companies are now getting ex-

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> As the labour cost gap between Europe and the Far East continues to close, and demands for speed and flexibility rise, nearshoring will present a viable solution for many UK firms

cellent results from qualified developers and also have peace of mind around issues such as intellectual property protection and fraud. The companies we work with are quickly coming to see the Lithuanian centre as their shared services provider."

In Western Europe, Portugal is emerging as a place where UK firms are operating part of their business, particularly in IT and software development.

Matthew Carrozo, head of marketing at Lisbon-based recruitment platform Landing.jobs, says: "The technical quality of the workforce coming out of highly ranked universities, their aptitude for English, which is on a par with the foreign speakers of Nordic countries, and their comparatively lower wages make Portugal incredibly attractive for nearshoring investment.

"This access to skilled talent is allowing home-grown and foreign companies alike to have front-of-house brand, marketing and customer service operations in the UK, and large teams of developers in Portugal, as is the case with Chic by Choice, Seedrs and Uniplaces."

Nearshoring is not without its challenges, including cultural and language barriers in some of the countries on the eastern fringes of CEE. A decision to nearshore business processes has to factor in issues such as the capability and flexibility of suppliers and the local workforce, and the long-term sustainability of their current capacities.

Nor is it a complete substitute for farshoring, as Mark Devonshire, vice president, infrastructure services UK, at Capgemini UK explains.

"Over the last ten years, large companies have moved away from viewing onshoring, offshoring and nearshoring as separate entities, and are instead focusing their efforts on making sure IT services are based in locations that will ensure the best possible service delivery, a process known as rightshoring," he says. "Increasingly, however, we are seeing nearshoring play a more important role within this model."

And as the labour cost gap between Europe and the Far East continues to close, and demands for speed and flexibility rise, nearshoring will present a viable solution for many UK firms.

Deloitte's Mr Craddock concludes: "While India and other low-cost locations will remain an important component for global multinationals, the future back office for a European business could potentially be a combination of software robots and staff based in the likes of Krakow and Cluj."

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